ECONOMIC NEWS

United States: A Weaker-Than-Expected Year-End... At First Glance

HIGHLIGHTS

- Real GDP rose 2.6% (annualized) in the fourth quarter of 2017, according to the preliminary estimate for national accounts. This is lower than the 3.2% gain recorded last summer. Final domestic demand still advanced 4.3%.

- Overall, in 2017, real GDP rose 2.3%, more than the 1.5% recorded in 2016, but less than the 2.9% registered in 2015.

- Real consumption increased 3.8% in the fourth quarter, which is more than expected and is the best result since the spring of 2016. Durable goods rose 14.2%, non-durable goods, 5.2%, and services 1.8%.

- Non-residential fixed investments by businesses rose 6.8%. Non-residential construction advanced 1.4% after declining during the summer. Investments in equipment grew 11.4%. Residential investments jumped 11.6% after two months of decline. The change in inventories fell from US$38.5B to only US$9.2B, taking a 0.62 percentage point bite out of real GDP growth.

- Foreign trade also took a hit caused by the 13.9% jump in real imports, which greatly exceeded the 6.9% rise in exports. The contribution is -1.13 points.

- Government expenditures rose 3.0%.

COMMENTS

At first glance, the slowdown in real GDP growth in the last quarter of 2017 can seem disappointing. Since the spring, we have become used to the U.S. economy growing at a rate exceeding 3%. Nonetheless, it is important to remember that the slower pace is the result of two factors: a smaller inventory change by businesses and real imports jumped. The other components, i.e. those that help to compile final domestic demand, all increased rapidly compared to the summer. In fact, final domestic demand recorded its biggest quarterly (annualized) increase since the summer of 2014.

IMPLICATIONS

Despite the minor slowdown in real GDP, the U.S. economy is healthy. Confidence levels are high, and there is less and less production overcapacity. All that remains to be seen is the pace at which the tax reform recently adopted will stimulate the already strong economy. It will also have to be seen if the first quarter of 2018 will post disappointing growth, as was often the case over the last few years. The situation remains favourable for an increase in the Federal Reserve’s key rates during the meeting in March.

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